

East goes West

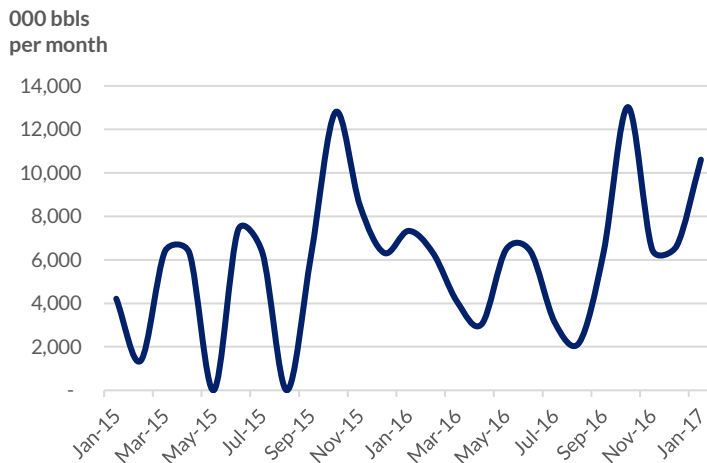
Weekly Tanker Market Report

When OPEC began planning for the now implemented supply cuts, one of the messages resonating was the need to protect Asia (the biggest buyer of OPEC crude) from production cuts and protect market share in the region. However, this raises the prospect that protecting this level of market share could impact negatively on any price recovery output cuts could have stimulated. Initially the areas expected to be most impacted by production cuts were US and European refineries. January's allocation from Saudi Arabia, Kuwait and the UAE to western refineries was tabled as an initial area where production cuts would be felt. In late December several refineries in Japan, China and South Korea expressed confidence in maintaining supply levels, announcing that they had not received any reduction notices from Middle East suppliers.

One of the main purposes of OPEC's cuts is to help stabilise prices on the back of the lows reached during 2016. Although it is still very early to ascertain the full impact of production cuts, in terms of pricing some success has been achieved. The Dubai crude benchmark has risen from close to \$42/barrel in early November to \$54/barrel at the time of writing. This has understandably not gone unnoticed by buyers in Asia.

The tentative signs of increases in oil prices have come at a time when Asia is bracing itself for declining oil production. Largest crude producers East of Singapore are China, Indonesia and

North Sea Exports to Asia



Malaysia; however, a lot of fields are mature and require increasingly expensive techniques to extract oil. Coupled with upstream Capex cuts during previous years of low prices and with most of new exploration being in gas fields, the region appears braced to rely on further imports in the coming years just to offset the decline in domestic output.

Furthermore, oil demand East of Singapore is expected to continue to increase, with the IEA suggesting that the consumption could grow by as much as 600,000 b/d in 2017 alone. Apart from growing consumption, refining capacity is anticipated to increase in at least 3

countries this year. China, Taiwan and Vietnam will add more refining capacity helping to balance out closures in Japan. Wood Mackenzie expects net refinery capacity additions of 430,000 b/day in 2017; however, it is worth noting that a large amount of this is taken up by the new inland refinery in China's Yunnan province supplied by pipeline through Myanmar.

As prices have climbed in recent months, eastbound shipments from sources like Azerbaijan, Alaska and the North Sea have increased. Supply cuts have increased the relative value of Middle East oil, allowing other suppliers to compete into the Asian market. Early trade data shows that January's North Sea exports are on track to be noticeably higher than previous years, indicating a 3 million bbls increase on January 2016 levels. In a further sign of diversifying supply, BP shipped their first cargo of US crude to Asia in October. The reduction in Middle East crude availability could also prompt Asian refiners to source more Caribbean & Central American barrels. The resulting increase in these long-haul developments could provide a boost to tanker owners this year; however, it is also important to note that this supply diversion will be heavily price dependent.

As the major importers in Asia have long standing relationships with OPEC's Middle East suppliers, a fundamental change in buying patterns may prove hard to push through, despite some refiners' eagerness to diversify supply. Prior to the November meeting the tanker market witnessed OPEC's efforts to protect market share, the question now is whether members will be prepared to potentially lose market share in 2017 in attempt to raise prices further?

Crude Oil

Middle East

The lead up to the Chinese New Year holidays was supposed to be busy - at least that was the hope for VLCC Owners in need of relief - but the actuality was for a slow lead up and a virtually dead end week session. Rates have slumped to ws 65 (2017 ws) to the East and to ws 40 (2017 ws) to the West and Charterers will remain in control as the second half of the February programme gets underway next week. Suezmaxes moved from 'drift' to 'desperation'. Popular runs to the West became increasingly hard fought over and rates have now dipped to as low as ws 39 (2017 ws) which even discounts VLCC numbers! Eastern movements were steadier at down to ws 80 (2017 ws), but action remained limited. Aframaxes shone more brightly at up to ws 135 (2017 ws) to Singapore, but then also tried to end at closer to ws 120 (2017 ws) with perhaps further erosion to come.

West Africa

No joy for Suezmaxes here, just increasing frustration at the mere drip feed of enquiry and the heavy competition for every opportunity. Rates fell off to ws 72.5 (2017 ws) to the USGulf and to ws 77.5 (2017 ws) to Europe which may now, perhaps, be 'bottom', but a rebound can't be sighted on the near-term horizon. VLCCs initially held a fairly solid line, but were eventually compromised by AGulf malaise to draw rates down towards ws 75 (2017 ws) to the Far East with \$3.47 million the last seen to West Coast India.

Mediterranean

A bright start for Aframaxes turned into a soggy finish to the week as supply easily outweighed demand and rates slid off to 80,000 by ws 105 (2017 ws) X-Med accordingly. Further downside beckons in the

short term too. Suezmaxes drifted sideways and then had to accept lower levels to 140,000 by ws 85 (2017 ws) from the Black Sea to European destinations as the weak West African scene undermined already tenuous sentiment.

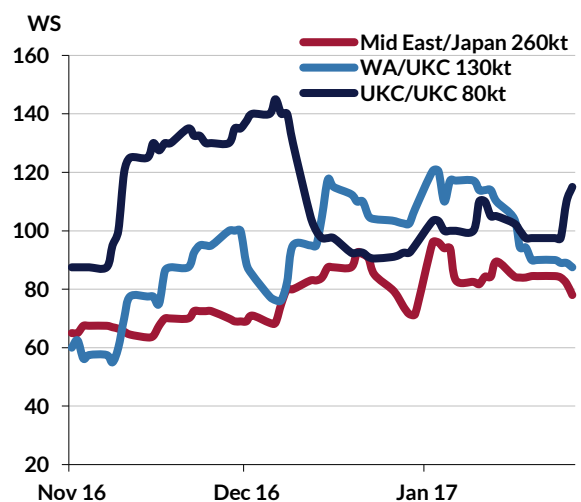
Caribbean

Aframax Owners kept their plate spinning at close to 70,000 by ws 165 (2017 ws) upcoast for most of the week, but the disrupted conditions that had allowed for the previous gain then started to dissipate and lower rates look on the cards for the next fixing phase. VLCCs saw only occasional interest, but rate ideas held close to \$5 million to Singapore and \$4 million to West Coast India despite that, though another slow patch would test Owners more severely.

North Sea

A better end to the week than many Aframax players had expected as easy tonnage lists became tight for end month slots and Owners managed to lever rates to 80,000 by ws 120 (2017 ws) X-North Sea and to 100,000 by ws 110 (2017 ws) from the Baltic. Further modest gains are still possible. VLCCs found very little in reaction to the previously busy phase, and reduced 'arb' economics too. Rate demands for fuel oil to Singapore currently stand at, or a little below, \$ 4 million.

Crude Tanker Spot Rates



Clean Products

East

MRs have this week come off in terms of both pace and rate - the weight of the LR market is finally being felt. West runs have come down from the heady heights of \$1.085 million and are now on subs at \$1 million - Charterers have felt the need to find greater value in the dollar per ton, given the cheap freight available on the LRs. EAF sits now at ws 175, although a ws 120 is on subs for a ship with dirty cargo history. TC12 runs are on subs at ws 155, but this will come under more pressure in the new week. Shorthauls are down to the \$180k levels, but MRs face stiff competition for these stems from the LR1s, so again we will likely see further softening. With Chinese New Year upon us, we will be missing much of the Far East for the early part of next week, so Owners will likely jump on any cargoes going to keep them moving.

LRs have had a depressing week with rates continuing the downward spiral. 75,000 mt naphtha AG/Japan is now ws 80 and 90,000 mt jet AG/UKCont is trading at \$1.60 million. These rates remain under threat though with a very quiet few days coming. 55,000 mt naphtha AG/Japan is down to ws 110, but hasn't truly been tested and 65,000 mt jet Ag/UKCont has fallen to \$1.15 million after being pushed the last few days. Rates will continue to struggle while the Far East is on holiday due to Chinese New Year celebrations.

Mediterranean

Week 4 has produced a rather flat trading environment for the Handies in the Mediterranean, rates have remained more or less unchanged from 30 x ws 155 X-Med and 30 x ws 167.5-170 for Black Sea. Enquiry was solid from the start of the week leaving the tonnage list a little tight on Wednesday, however, despite Owner's best efforts to push the market higher, tonnage was recycled easily enough ultimately keeping rates trading flat. As it stands we look to see the same situation going into next week.

The MRs have enjoyed a little more enquiry for Red Sea bound cargoes, although the levels being fixed (L/S \$710 K) and a softening East market means this route is not the preferred for many Owners. West enquiry has been slim and with a handful of failures ideally this market needs a fresh test after the NWE MR market has been lackluster this week.

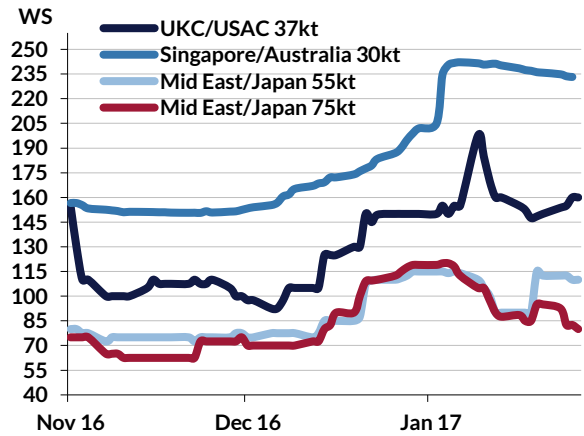
UK Continent

A rush of WAF enquiry to start the week off gave Owners optimism, but this was not to blossom as a slow supply of transatlantic stems kept rates at bay. As time moved on an active Baltic/UKCont sector cleared out many of the ships in January dates, giving a glimmer of opportunity to push, but a placid end to the week once again dissolved optimism. Looking ahead we see this flat mentality continuing unless cargo quantities pick up, pressure will continue.

A week of turbulent times for Owners in the UKCont has passed, with a slow production of fresh enquiry keeping them on the back foot. Rates began the week comfortably towards 30 x ws 175, but as tonnage lists gradually grew with little employment available, Charterers have managed to chisel away rates back down towards ws 170. X-UKCont runs have been trading around 5 points less than the Baltic runs as we settle into the mid-160s by the end of the week. Looking ahead, tonnage is still available and with cargo dates already creeping over two weeks away, Owners will need to see a glut of further enquiry to be able to hold their present stance.

Flexis this week have seen most fixtures coming from COA contracts and market stems have been minimal. With this rates have not been able to be tested and market calls have simply been mirror image from the Handy market. As the week comes to a close, rates seem to have dipped towards 22 x ws 210 and looking ahead, Owners would like to see more enquiry to produce hold in rates.

Clean Product Tanker Spot Rates



Dirty Products

Handy

With numbers in the Continent being tested progressively throughout the week, Owners and Charterers made little movement in either direction when trying to force changes in the prevailing trend. As such the theme of the week was repetition, although finally we can at least show transition onto the 2017 ws schedule.

In the Med, it was the early stages of the week that made the most telling impact on prevailing trend, as activity levels made indentation to Monday's fresh tonnage lists. Come the final stages of the week and with the Black Sea trading at an uncommonly low differential in comparison to X-Mediterranean values, Owners are now trying to re-assert a positive margin.

MR

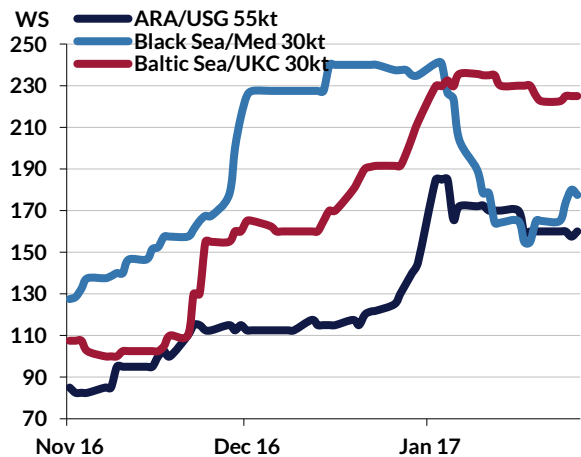
A continued theme presents in the Continent as tight natural availability forces Charterers to adjust in challenging conditions, being forced to look forward on dates or seek alternate sized units (depending on discharge options needed). This said, Charterers haven't been deterred in trying to sharpen values where longhaul voyages have been on offer. Delving a little deeper into the conditions currently facing the MR sector, across both the Mediterranean and Continent generic benchmarking is no longer best practice as noticeable

inconsistencies have been seen between deals. Case specific freighting is being more heavily relied upon particularly in the Mediterranean where trading strategies differ among operators.

Panamax

Entering the week, it was clear that competition between units down in the Mediterranean region would mean that numbers were susceptible to negative correction, and this week we saw Charterers extract value by measurement of 7.5 points. In the Continent, however, where competition is less intense, Owners were tested, with Charterers left somewhat disappointed only to achieve only last done levels. Looking ahead the overall balance for this market looks likely to settle, as with this week's tonnage clear down and the US markets being stable, any ballast tonnage in unlikely to be tempted this way unless numbers at the higher end of this week's range are on offer.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 26th	Jan 19th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	-8	78	86	91	69
TD20	Suezmax	WAF-UKC	-3	86	88	107	88
TD7	Aframax	N.Sea-UKC	+15	113	98	93	107

Dirty Tanker Spot Market Developments - \$/day tce (a)

			wk on wk change	Jan 26th	Jan 19th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	-6,000	37,750	43,750	73,250	29,500
TD20	Suezmax	WAF-UKC	-1,250	17,500	18,750	40,500	18,500
TD7	Aframax	N.Sea-UKC	+11,250	21,500	10,250	17,500	16,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 26th	Jan 19th	Last Month	FFA Q3
TC1	LR2	AG-Japan	-15	80	95	106	
TC2	MR - west	UKC-USAC	+14	162	148	141	154
TC5	LR1	AG-Japan	-4	111	115	108	113
TC7	MR - east	Singapore-EC Aus	-3	233	236	179	

Clean Tanker Spot Market Developments - \$/day tce (a)

			wk on wk change	Jan 26th	Jan 19th	Last Month	FFA Q3
TC1	LR2	AG-Japan	-3,250	3,500	6,750	17,250	
TC2	MR - west	UKC-USAC	+2,250	11,750	9,500	14,750	10,500
TC5	LR1	AG-Japan	-500	7,000	7,500	11,250	7,250
TC7	MR - east	Singapore-EC Aus	-250	12,500	12,750	11,000	

(a) based on round voyage economics at 'market' speed

ClearView Bunker Price (Rotterdam HSFO 380)	-2	303	305	306
ClearView Bunker Price (Fujairah 380 HSFO)	-9	325	334	331
ClearView Bunker Price (Singapore 380 HSFO)	-3	330	333	343
ClearView Bunker Price (Rotterdam LSMGO)	+6	465	459	468

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